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United States General Accounting Office  
Washington, DC 20548

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May 20, 2002

The Honorable W.J. Billy Tauzin  
Chairman  
Committee on Energy and Commerce  
House of Representatives

The Honorable John D. Dingell  
Ranking Member  
Committee on Energy and Commerce  
House of Representatives

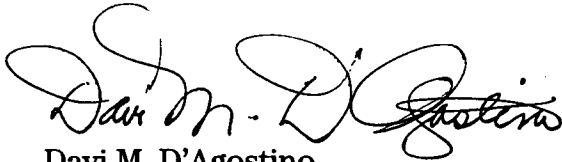
**Subject: GAO Review of Business Continuity, Telecommunications, and Physical and Electronic Security for the Financial Markets**

This letter confirms our commitment to assess the impact of the events of September 11, 2001, on the U.S. financial markets, including the equity markets, bond and short-term funding markets, and the payments systems. In light of the attacks, we will assess the steps that major exchanges, electronic communication networks, market support organizations, and selected broker-dealers and banks are taking to: 1) develop business continuity plans to ensure their ability to operate in the aftermath of future disruptions, including ensuring continued telecommunication services; (2) implement physical security policies and procedures to minimize the potential for physical damage to their operations; and (3) implement electronic security policies and procedures to minimize the potential for cyber-based disruptions to their operations. In addition, we will discuss efforts underway within the industry to improve the resiliency of the telecommunications infrastructure. Finally, we will discuss how the financial markets fit into the national homeland security and critical infrastructure protection efforts that are currently underway.

Based on the design phase of the assignment and on agreements reached with your staff, we will complete our work and issue our report by January 31, 2003. As a result of the sensitive nature of much the information we are collecting, we envision reporting on these issues in a combination of public and proprietary reports. The public reports will be available to the public at large and will aggregate our findings in such a way that individual organizations cannot be identified. The proprietary reports will be marked proprietary and will contain sensitive information about specific organizations. The proprietary reports will be distributed only to requesting members and the regulators and unauthorized disclosure of the any proprietary

information they contain will be subject to criminal penalty. Enclosures to this letter include a list of all requesters from your committee and the terms of work, which sets forth the understanding reached with your staff on the key aspects of the study.

We look forward to working with you and your staff on this assignment. If you should have any questions, please contact me on (202) 512-8678 or Cody Goebel, Assistant Director, on (202) 512-7329 or [goebelc@gao.gov](mailto:goebelc@gao.gov).

A handwritten signature in black ink, appearing to read "Davi M. D'Agostino". The signature is fluid and cursive, with the first name "Davi" and last name "D'Agostino" clearly legible.

Davi M. D'Agostino  
Director, Financial Markets  
and Community Investment

Enclosures – 2

LIST OF REQUESTERS

The Honorable W.J. Billy Tauzin  
Chairman  
Committee on Energy and Commerce  
House of Representatives

The Honorable John D. Dingell  
Ranking Member  
Committee on Energy and Commerce  
House of Representatives

The Honorable Fred Upton  
Chairman  
Subcommittee on Telecommunications and the Internet  
House of Representatives

The Honorable Edward J. Markey  
Ranking Member  
Subcommittee on Telecommunications and the Internet  
House of Representatives

The Honorable Cliff Stearns  
Chairman  
Subcommittee on Commerce, Trade, & Consumer Protection  
House of Representatives

The Honorable Edolphus Towns  
Ranking Member  
Subcommittee on Commerce, Trade, & Consumer Protection  
House of Representatives

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# Terms of the Work

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## Objectives/Key Questions

In responding to the congressional request, we will report on the following key questions: (1) How were the equity markets, bond markets, and payments system affected by the events of 9/11; (2) What policies and procedures do the key market participants have to address physical security of their facilities and what steps have the regulators taken to oversee physical security; (3) What policies and procedures do the key market participants have with regard to electronic security to ensure their systems are protected from cyber-based attacks and what steps have the regulators taken to oversee electronic security; (4) What efforts are underway within the financial industry to improve the resiliency of the telecommunications infrastructure; and (5) How do the financial markets fit into the national critical infrastructure protection and homeland security efforts that are currently underway.

## Scope

Our scope of work will focus on the major market participants that were directly affected by the events of 9/11, and include a total of 13 exchanges, electronic communications networks, market support organizations, broker-dealers, participants in the payment systems, and banks located throughout the country.

## Methodology

To determine the impact of the events of 9/11 on the financial markets we will meet with representatives of the market participants directly affected by the attacks and the financial regulators involved in restoring market operations and we will review reports on the impact of the attacks on the markets. To assess the business continuity issues we compare the plans of the market participants in our scope, against accepted criteria for continuity planning, including FISCAM and COBIT. To address the telecommunications issues, we will meet with representatives of the key telecommunications providers that service the affected areas in lower Manhattan including Verizon, assess efforts to improve the overall resiliency of the telecommunications networks, and describe the feasibility of alternatives to the current telecommunications infrastructure. To examine the physical security issues we will assess the security at the organizations we visit against physical security standards developed by the Department of Justice for federal buildings in the aftermath of the Oklahoma City bombing in 1995 by conducting tours of the facilities and reviewing policies and reports on their physical security. To assess the action of the regulators, we will conduct meetings with agency officials and review any guidance or regulations they develop that address continuity and security issues. The

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work will be done in accordance with Generally Accepted Government Auditing Standards (GAGAS).

## Product Type

We intend to publish a public report that aggregates the information on the various market participants. To report the more sensitive information, we plan on issuing proprietary reports directly to the requesters and to the regulators.

## Product Delivery Date(s)

By January 31, 2003.

## Reporting on Job Status

We will contact your staff periodically to keep them informed on the progress of our assignment.